

LIVINGSTON PARISH GRAVITY DRAINAGE
DISTRICT #2

REPORT ON AUDIT OF COMPONENT
UNIT FINANCIAL STATEMENTS

DECEMBER 31, 2010

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 8/10/11

CONTENTS

Independent Auditor's Report.....	Page 1 - 2
Required Supplemental Information Management's Discussion and Analysis.....	3 - 8
Government-Wide Financial Statements:	
Statement of Net Assets.....	9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet - General Fund.....	11
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets.....	12
Statement of Revenues, Expenditures, and Changes in Fund Balance - General Fund.....	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Fund to the Statement of Activities.....	14
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (GAAP Basis) and Actual - General Fund.....	15
Notes to the Financial Statements.....	16 - 23
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Component Unit Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	24 - 25
Schedule of Findings and Responses.....	26
Summary Schedule of Prior Audit Findings.....	27

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May 17, 2011

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Livingston Parish Gravity Drainage
District #2
Livingston Parish Council
Watson, Louisiana

We have audited the accompanying financial statements of the governmental activities, the major fund (the General Fund), and the budgetary comparison statement of the General Fund of the Livingston Parish Gravity Drainage District #2, "the District" (a component unit of the Livingston Parish Council), as of and for the year ended December 31, 2010, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the District's December 31, 2009 financial statements and, in our report dated June 4, 2010, we expressed unqualified opinions on the respective financial statements of the governmental activities, the major fund (the General Fund), and the budgetary comparison statement of the General Fund.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note (9) to the financial statements, management has not recorded an estimated expenditure, liability, revenue or receivable related to Hurricane Gustav debris removal services received under a cooperative endeavor agreement between the Livingston Parish Council and the Livingston Parish Gravity Drainage District #2. Documentation related to the costs associated with these services has not been provided by the Livingston Parish Council or the debris removal contractors for management to be able to estimate and record the estimated amounts in the financial statements. Accounting principles generally accepted in the

Livingston Parish Gravity Drainage
District #2

United States of America require that an adequate estimate be reported in the financial statements for receivables, liabilities, revenues and expenditures to account for the debris removal services and the associated grant reimbursements. The amount by which this departure would affect the assets, liabilities, fund balances, net assets, revenues, and expenditures of the Government-Wide and the General Fund is not reasonably determinable as sufficient documentation was not available to adequately estimate the financial transactions.

In our opinion, except for the effects of not reporting the estimated receivables, liabilities, revenues and expenditures associated with the Hurricane Gustav debris removal services as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the major fund (the General Fund) of the Livingston Parish Gravity Drainage District #2 as of December 31, 2010, and the budgetary comparison statement of the General Fund and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated May 17, 2011, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of our audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Respectfully submitted,

Hannu J. Bourgeois, CPA

Livingston Parish Gravity Drainage
District #2
Watson, Louisiana
Management's Discussion and Analysis
December 31, 2010

This section of the Livingston Parish Gravity Drainage District #2's (the District) annual financial report presents our discussion and analysis of the District's activities for the year ended December 31, 2010. This document focuses on the current year's activities, resulting changes, and currently known facts. Please read this document in conjunction with the detailed financial statements.

FINANCIAL HIGHLIGHTS

- * Net Assets on December 31, 2010 were \$1,084,849.
- * The Net Assets of the Governmental Activities showed an increase of \$36,247 or a 3.46% increase in 2010.
- * The total general fund balance at December 31, 2010 was \$633,183. This reflects an actual decrease in 2010 to the general fund of \$90,771 or 12.54%.
- * At the end of 2010, Unreserved General Fund Balance of \$633,183 represents 106.70% of total General Fund Expenditures.
- * The District had a 4.41% decrease in the amount of sales tax revenue in 2010, while experiencing a 1.30% increase in 2009 due to the leveling off of economic growth in the area. The sales tax revenue totaled \$498,410 in 2010 and \$520,917 in 2009 representing 99.1% and 98.9 % of the total revenues in each of the respective years.

OVERVIEW OF FINANCIAL STATEMENTS

The management's discussion and analysis is intended to serve as an introduction to the basic financial statements of the District. The District's basic financial statements are comprised of three components: 1) the government-wide financial statements, 2) the fund financial statements, and 3) the notes to the financial statements.

Government-wide financial statements are designed by GASB Statement 34 to change the way in which governmental financial statements are presented. It now provides readers for the first time a concise "entity-wide" Statement of Net Assets and Statement of Activities, seeking to give the user of the financial statements a broad overview of the District's financial position and results of operations in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and accrued but unpaid interest).

The government-wide financial statements can be found on pages 9 and 10 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District like other state and local governments, uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements. All of the funds of the District are governmental type funds.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 11 through 15 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16 through 23 of this report.

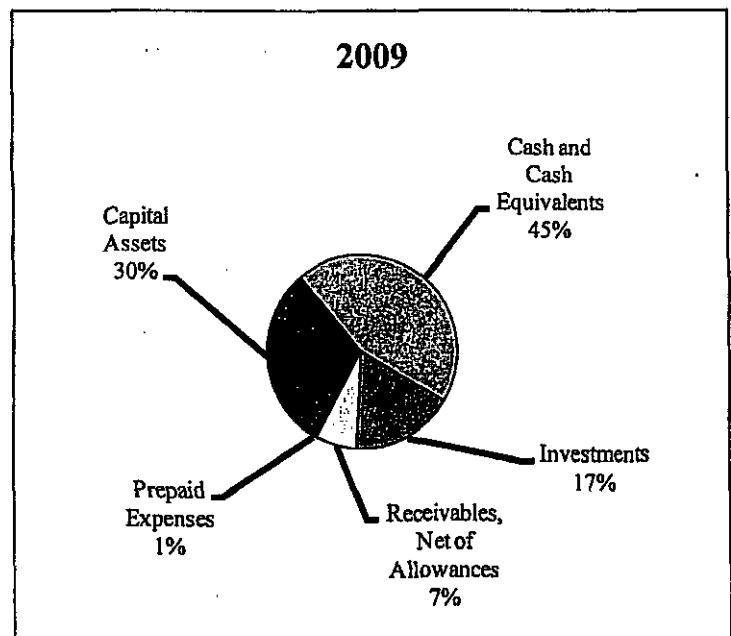
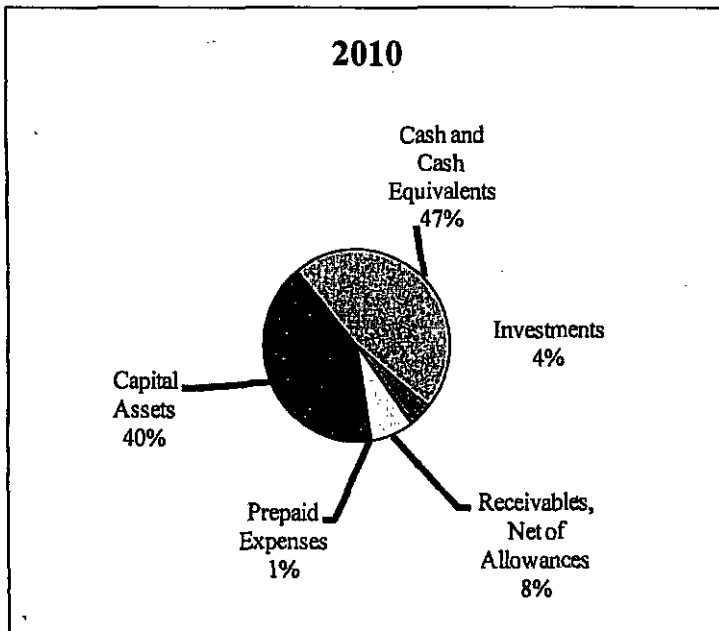
STATEMENT OF NET ASSETS

The following is a schedule of the District's net assets at December 31, 2010 and 2009. Net assets are calculated by taking the difference between the total assets and total liabilities. The District's assets exceeded its liabilities at the close of 2010 and 2009 by a total of \$1,084,849 and \$1,048,602, respectively.

Condensed Statements of Net Assets

	<u>2010</u>	<u>2009</u>	<u>Increases (Decreases)</u>
Cash and Cash Equivalents	\$ 520,467	\$ 473,378	\$ 47,089
Investments	42,265	182,113	(139,848)
Receivables, Net of Allowances	81,816	74,479	7,337
Inventories	2,408	284	2,124
Prepaid Expenses	14,390	14,987	(597)
Capital Assets, Net of Accumulated Depreciation	443,804	314,457	129,347
 Total Assets	 1,105,150	 1,059,698	 45,452
 Current Liabilities	 20,301	 11,096	 9,205
 Total Liabilities	 20,301	 11,096	 9,205
 Net Assets			
Invested in Capital Assets, Net of Related Debt	443,804	314,457	129,347
Unrestricted	641,045	734,145	(93,100)
 Total Net Assets	 <u>\$ 1,084,849</u>	 <u>\$ 1,048,602</u>	 <u>\$ 36,247</u>

The largest portion of the District's net assets are reflected on the following charts:



STATEMENT OF ACTIVITIES

The District provides proper maintenance to the existing infrastructure canal and ditch systems for drainage for the citizens of the District. Various improvement projects at certain sites were undertaken as well as the continued ongoing clearing, cleaning, spraying, and general improvement to drainage areas. The extreme growth in the number of homeowners in the District and the new challenges and demands for better drainage of water flow throughout the District kept the focus of management in 2010. The majority of the funding for the District's operation and maintenance is provided by sales taxes on public sales within the boundaries of the District. The District collects a one-half cent sales and use tax within the boundaries of the District and is placed into the general fund. The funds are used to pay for the operation and maintenance of the drainage systems and asset purchases.

Other sources of revenue result from interest earned and culvert sizing fees.

Condensed Statements of Activities

	<u>2010</u>	<u>2009</u>	<u>Increases (Decreases)</u>
Revenues:			
General Revenues	<u>\$ 502,570</u>	<u>\$ 527,163</u>	<u>\$ (24,593)</u>
	502,570	527,163	(24,593)
Expenses:			
Public Works	382,327	466,895	(84,568)
Depreciation	<u>83,996</u>	<u>88,654</u>	<u>(4,658)</u>
	<u>466,323</u>	<u>555,549</u>	<u>(89,226)</u>
Change in Net Assets	<u>\$ 36,247</u>	<u>\$ (28,386)</u>	<u>\$ 64,633</u>

REVENUES

- * Sales and use tax revenue decreased \$23,348 or 4.40% in 2010 from the previous year, while interest revenues decreased by \$440 or 10.00% from the previous year. Sales and use tax revenue increased \$6,851 or 1.30% in 2009 from 2008.

EXPENSES

Total expenses in 2010 decreased by \$89,226. Actual operating expenses decreased by a net of \$84,568 and depreciation expense decreased by \$4,658.

BUDGETARY HIGHLIGHTS

- * The final amended budget for revenues in 2010 reflects a decrease of \$51,000. This was caused by smaller sales tax collections, and a reduction in interest rates earned. In 2009, the District had an decrease of \$11,000 in its final amended revenue budget.
- * In 2010, the District received \$6,570 more than the final amended revenue budget or a 1.33 % favorable variance and in 2009 revenues were less than the final amended revenue budget by \$6,837 or a 1.28%, unfavorable variance.
- * In 2010, the final amended budget for expenditures reflects an increase of \$53,600 as compared to a decrease of \$53,700 for the final amended budget for expenditures in 2009. The 2010 final amended budget reflected an increase in capital outlay expenditures of \$170,700, and decreases in salaries, engineering fees, repairs and maintenance, and supplies totaling \$100,900.
- * Total actual expenditures in 2010 were less than the final amended budget by \$7,259 or 1.20%, while in 2009 total expenditures were less than the final amended budget by \$3,577 or .73%.
- * A deficit of revenues over expenditures in the amount of \$104,600 was planned for 2010. Actual deficit amount of revenues over expenditures totaled \$90,771, as compared to the budgeted deficit amount. This deficit was attributed to the purchase of land for future shop and equipment storage.

CAPITAL ASSETS

The District's investment in capital assets as of December 31, 2010 and 2009 amounts to \$443,804 and \$314,457 (net of accumulated depreciation). This investment in capital assets includes land, buildings, system improvements, machinery, and equipment. The total increase in the District's investment in capital assets for 2010 was \$129,347 or 41.14 %. The total decrease in 2009 was \$63,525 or 16.81%. Major capital asset events during 2010 and 2009 included the following:

2010:

- * Land and building was purchased for \$192,779.
- * A four-wheel utility vehicle was purchased for \$11,704.
- * A lawn mower was purchased for \$6,000.
- * An ice machine was purchased for \$2,400.
- * 2 GPS units were purchased at a cost of \$460.
- * Depreciation expense amounted to \$83,996.

2009:

- * Ford 250 Truck was purchased for \$22,312.
- * A security camera was purchased for \$1,800.
- * A camera was purchased for \$229.
- * A television was purchased for \$788.
- * Depreciation expense amounted to \$88,654.

FUTURE EXPENSES

The District is committed to previous years' goals of accomplishing proper maintenance to all major canals, ditches, and lateral drainage channels for the new population demand being experienced within the District. The extreme growth in the number of homeowners in the District and the additional drainage impact effects from new developments will require additional cleaning of major drainage channels. Focusing attention on canals which are holding surface water or causing delayed drainage will be pursued by the District in the future with the resources available. Increased expenditures for engineering, mitigation fees, employee salaries, general supplies, and capital outlay for related maintenance equipment is estimated in 2011 and beyond. The commitment by the District with the resources available will only improve the standard of living for the District's citizenry. The District budgeted an amount equal to \$82,700 for Capital Outlay in 2011 as needed to accomplish the goals stated above. The District purchased additional land in 2010 and will make improvements for storage of shop equipment in 2011 and beyond for operations improvements.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens and creditors with a general overview of the District's finances and reveal the District's accountability for the money received through its operations. If there are any questions about this report or need of additional financial information, contact Administrative Secretary, Randall Smith, Post Office Box 617 Watson, LA 70786.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**LIVINGSTON PARISH GRAVITY DRAINAGE
DISTRICT #2**

STATEMENT OF NET ASSETS

DECEMBER 31, 2010
(With Comparative Totals as of December 31, 2009)

	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and Cash Equivalents	\$ 520,467	\$ 473,378
Investments	42,265	182,113
Sales Tax Receivable, Net of Collection Fees	81,816	74,479
Inventories	2,408	284
Prepaid Insurance	14,390	14,987
Capital Assets (Net of Accumulated Depreciation)	<u>443,804</u>	<u>314,457</u>
Total Assets	<u>\$ 1,105,150</u>	<u>\$ 1,059,698</u>
LIABILITIES		
Accounts Payable	\$ 4,690	\$ 6,300
Accrued Liabilities	9,083	-
Long-Term Liabilities Due Within One Year	<u>6,528</u>	<u>4,796</u>
Total Liabilities	20,301	11,096
NET ASSETS		
Investment in Capital Assets, Net of Related Debt	443,804	314,457
Unrestricted	<u>641,045</u>	<u>734,145</u>
Total Net Assets	<u>1,084,849</u>	<u>1,048,602</u>
Total Liabilities and Net Assets	<u>\$ 1,105,150</u>	<u>\$ 1,059,698</u>

The accompanying notes constitute an integral part of this statement.

**LIVINGSTON PARISH GRAVITY DRAINAGE
DISTRICT #2**

STATEMENT OF ACTIVITIES

**FOR THE YEAR ENDED DECEMBER 31, 2010
(With Comparative Totals for the Year Ended December 31, 2009)**

	Governmental Activities	
	2010	2009
<u>Governmental Activities:</u>		
Expenses:		
Public Works	\$ 382,327	\$ 466,895
Depreciation	83,996	88,654
Total Expenses	466,323	555,549
General Revenues:		
Taxes - Sales	498,410	521,758
Interest Income	3,960	4,400
Subsurface Drainage	200	500
Gain on Sale of Asset	-	505
Total General Revenues	502,570	527,163
Change in Net Assets	36,247	(28,386)
Net Assets - Beginning of Year	1,048,602	1,076,988
Net Assets - End of Year	\$ 1,084,849	\$ 1,048,602

The accompanying notes constitute an integral part of this statement.

FUND FINANCIAL STATEMENTS

**LIVINGSTON PARISH GRAVITY DRAINAGE
DISTRICT #2**

BALANCE SHEET - GENERAL FUND

DECEMBER 31, 2010
(With Comparative Totals as of December 31, 2009)

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and Cash Equivalents	\$ 520,467	\$ 473,378
Investments	42,265	182,113
Sales Tax Receivable, Net of Collection Fees	81,816	74,479
Inventories	<u>2,408</u>	<u>284</u>
Total Assets	<u>\$ 646,956</u>	<u>\$ 730,254</u>
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts Payable	\$ 4,690	\$ 6,300
Accrued Liabilities	<u>9,083</u>	<u>-</u>
Total Liabilities	13,773	6,300
 Fund Equity:		
Reserved for Inventories	2,408	284
Unreserved	<u>630,775</u>	<u>723,670</u>
Total Fund Balances	<u>633,183</u>	<u>723,954</u>
Total Liabilities and Fund Balances	<u>\$ 646,956</u>	<u>\$ 730,254</u>

The accompanying notes constitute an integral part of this statement.

**LIVINGSTON PARISH GRAVITY DRAINAGE
DISTRICT #2**

**RECONCILIATION OF THE GOVERNMENTAL FUND
BALANCE SHEET TO THE STATEMENT OF NET ASSETS**

**DECEMBER 31, 2010
(With Comparative Totals as of December 31, 2009)**

	<u>2010</u>	<u>2009</u>
Fund Balances - Total Governmental Fund	\$ 633,183	\$ 723,954
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund		
Governmental Capital Assets	901,761	688,418
Less: Accumulated Depreciation	<u>(457,957)</u>	<u>(373,961)</u>
	443,804	314,457
Prepaid Insurance	14,390	14,987
Long term liabilities are not due and payable in the current period and therefore not reported in the governmental fund:		
Compensated Absences	<u>(6,528)</u>	<u>(4,796)</u>
Net Assets of Governmental Activities	<u>\$ 1,084,849</u>	<u>\$ 1,048,602</u>

The accompanying notes constitute an integral part of this statement.

**LIVINGSTON PARISH GRAVITY DRAINAGE
DISTRICT #2**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GENERAL FUND**

FOR THE YEAR ENDED DECEMBER 31, 2010
(With Comparative Totals for the Year Ended December 31, 2009)

	<u>2010</u>	<u>2009</u>
Revenues:		
Sales Tax Collected	\$ 498,410	\$ 521,758
Interest	3,960	4,400
Subsurface Drainage	200	500
Miscellaneous	-	505
Total Revenues	<u>502,570</u>	<u>527,163</u>
Expenditures:		
Public Works:		
Salaries	170,200	190,832
Per Diem - Board Members	8,700	7,100
Accounting	17,461	15,744
Engineering Fees	22,133	47,705
Health Insurance	19,274	20,487
Insurance	69,321	72,155
Legal	1,701	1,110
Payroll Taxes	14,186	15,698
Pension Expense	8,510	9,542
Repairs and Maintenance	5,483	10,671
Sales Tax Collection Fees	11,202	14,245
Supplies	22,525	30,959
Telephone	4,580	6,181
Uniforms	2,296	2,735
Unreimbursed Disaster Expenses	-	15,317
Utilities	2,426	2,113
	<u>379,998</u>	<u>462,594</u>
Capital Outlay	213,343	25,129
Total Expenditures	<u>593,341</u>	<u>487,723</u>
Excess (Deficiency) of Revenues Over Expenditures	(90,771)	39,440
Fund Balance at Beginning of Year	<u>723,954</u>	<u>684,514</u>
Fund Balance at End of Year	<u>\$ 633,183</u>	<u>\$ 723,954</u>

The accompanying notes constitute an integral part of this statement.

**LIVINGSTON PARISH GRAVITY DRAINAGE
DISTRICT #2**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES**

For the Year Ended December 31, 2010
(With Comparative Totals for the Year Ended December 31, 2009)

	<u>2010</u>	<u>2009</u>
Net Change in Fund Balance - Total Governmental Fund	\$ (90,771)	\$ 39,440
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation in the period:		
Capital Outlays	213,343	25,129
Depreciation Expense	<u>(83,996)</u>	<u>(88,654)</u>
	129,347	(63,525)
Add accumulated depreciation on capital assets retired during the year	-	250
Less cost basis of capital assets retired during the year	-	(250)
Change in Prepaid Insurance	(597)	495
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
(Increase) Decrease in Compensated Absences Payables	<u>(1,732)</u>	<u>(4,796)</u>
Change in Net Assets of Governmental Activities	\$ <u>36,247</u>	\$ <u>(28,386)</u>

The accompanying notes constitute an integral part of this statement.

**LIVINGSTON PARISH GRAVITY DRAINAGE
DISTRICT #2**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL - GENERAL FUND**

FOR THE YEAR ENDED DECEMBER 31, 2010

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues:				
Sales Tax Collected	\$ 540,000	\$ 492,000	\$ 498,410	\$ 6,410
Interest	6,000	3,900	3,960	60
Subsurface Drainage	-	-	200	200
Miscellaneous	1,000	100	-	(100)
Total Revenues	547,000	496,000	502,570	6,570
Expenditures:				
Public Works:				
Salaries	200,000	170,000	170,200	(200)
Per Diem - Board Members	6,500	8,700	8,700	-
Accounting	18,000	16,900	17,461	(561)
Engineering Fees	53,200	24,600	22,133	2,467
Health Insurance	23,000	19,500	19,274	226
Insurance	75,000	75,000	69,321	5,679
Legal	500	1,500	1,701	(201)
Payroll Taxes	17,000	13,600	14,186	(586)
Pension Expense	11,000	6,400	8,510	(2,110)
Repairs and Maintenance	30,000	5,000	5,483	(483)
Sales Tax Collection Fees	15,000	11,000	11,202	(202)
Supplies	41,000	23,700	22,525	1,175
Telephone	7,000	5,000	4,580	420
Uniforms	3,000	2,500	2,296	204
Utilities	2,500	2,200	2,426	(226)
	502,700	385,600	379,998	5,602
Capital Outlay	44,300	215,000	213,343	1,657
Total Expenditures	547,000	600,600	593,341	7,259
Excess (Deficiency) of Revenues Over Expenditures	-	(104,600)	(90,771)	13,829
Fund Balance at Beginning of Year	723,954	723,954	723,954	-
Fund Balance at End of Year	\$ 723,954	\$ 619,354	\$ 633,183	\$ 13,829

The accompanying notes constitute an integral part of this statement.

**LIVINGSTON PARISH GRAVITY DRAINAGE
DISTRICT #2**

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010

(1) Summary of Significant Accounting Policies -

Livingston Parish Gravity Drainage District #2 "the District" is a body corporate created by the Livingston Parish Council, as provided by Louisiana Revised Statutes. The District is governed by a board of five commissioners.

On January 18, 1997, an election was held whereby the voters of Livingston Parish Gravity Drainage District #2 approved a ½% sales and use tax beginning July 1, 1997 for the purpose of "constructing, improving and maintaining drainage facilities within and for the district and purchasing necessary equipment".

The District's taxes are collected by the Livingston Parish School Board and are remitted to the District monthly. The District pays the School board a fee for this service.

The financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. On June 30, 2010, the GASB issued a codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

A. Financial Reporting Entity

This report includes all funds which are controlled by or dependent on the District's Board of Commissioners. Control by or dependence on the board was determined on the basis of taxing authority, authority to issue debt, election or appointment of governing body, and other general oversight responsibility.

In conformance with Governmental Accounting Standards Board, Statement 14, the District is a component unit of the Livingston Parish Council, the governing body of the parish. The accompanying financial statements present information only on the funds maintained by the District and do not present information on the Council and the general government services provided by that governmental unit.

**LIVINGSTON PARISH GRAVITY DRAINAGE
DISTRICT #2**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010

B. Basis of Presentation

Basic Financial Statements - Government-Wide Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major fund). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. There were no activities of the District categorized as a business-type activity.

In the government-wide Statement of Net Assets, the governmental activity column (a) is presented on a consolidated basis by column, (b) and is reported on a full accrual, economic resource basis.

The government-wide Statement of Activities reports both the gross and net cost of the District's functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants while capital grants reflects capital-specific grants. The District does not have any program revenues, operating grants, or capital grants.

The net costs (by function) are normally covered by general revenue (taxes, interest and investment earnings, etc).

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Basic Financial Statements - Fund Financial Statements

The financial transactions of the District are reported in an individual fund in the fund financial statements. This fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures. This fund is reported by generic classification within the financial statements.

**LIVINGSTON PARISH GRAVITY DRAINAGE
DISTRICT #2**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010

The District uses the following fund type:

Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental fund of the District:

The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. At December 31, 2010, it is the only fund of the District.

C. Basis of Accounting and Measurement Focus

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

1. Accrual -

The governmental activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Revenues of the District consist principally of sales taxes and interest income. Interest income is recorded when earned. Sales taxes are recorded as revenues when the underlying transaction occurs and meets the availability criteria.

2. Modified Accrual -

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means that the amount of the transaction can be determined and "available" means that the amount of the transaction is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for revenue recognition for all governmental fund type revenues. Expenditures are recorded when the related fund liability is incurred. Depreciation is not recognized in the Governmental Fund Financial Statements.

**LIVINGSTON PARISH GRAVITY DRAINAGE
DISTRICT #2**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010

D. Capital Assets

Capital assets are reported in the government-wide financial statements at historical cost. Additions, improvements or other capital outlays that significantly extend the useful life of an asset are capitalized. Costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on a straight line basis over the following estimated useful lives:

Buildings and Improvements	20 to 40 years
Equipment	5 to 10 years
Vehicles	5 years

E. Budgetary Practices

The District utilizes the following budgetary practices:

The Chairperson of the Board prepares the annual budget which is based on what is expected to be collected during the fiscal year and is approved by the Board of Commissioners. The adopted budget constitutes the authority of the District to incur liabilities and authorize expenditures from the respective budgeted funds. Additionally, certain expenditures are approved monthly by the Board before payment.

All budget amounts presented in the financial statements have been adjusted for legally authorized revisions of the annual budget during the year.

F. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

G. Encumbrances

Encumbrances outstanding at year end do not represent GAAP expenditures or liabilities but represent budgetary accounting controls. The Governmental Fund's budget is maintained on the modified accrual basis of accounting except that budgetary basis expenditures include purchase orders and contracts (encumbrances) issued for goods or services not received at year end.

**LIVINGSTON PARISH GRAVITY DRAINAGE
DISTRICT #2**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010

The actual results of operations are presented in accordance with GAAP and the Commission's accounting policies do not recognize encumbrances as expenditures until the period in which the goods or services are actually received and a liability is incurred. Encumbrances are presented as a reservation for encumbrances on the Balance Sheet of the governmental fund. At December 31, 2010, the District had no outstanding encumbrances.

H. Accumulated Unpaid Vacation and Sick Pay

Employees of the District earn annual leave at varying rates according to years of service. Accrued unused annual leave earned by an employee is carried forward to the succeeding calendar year but the amount that can be carried forward is limited to 1,040 hours. Employees that are terminated or resign are paid for the unused annual leave balance. As of December 31, 2010, the accrued liability for unpaid vacation benefits amounted to \$6,528.

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any debt proceeds used for the acquisition, construction, or improvements of those assets.

(2) Cash and Cash Equivalents -

For reporting purposes, cash and cash equivalents include cash, demand deposits, and time certificates of deposit. Under state law the District may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, any other state in the union, or under the laws of the United States. Further, the District may invest in time deposits or certificates of deposit of state banks organized under Louisiana law and national banks having principal offices in Louisiana.

As confirmed by the fiscal agents, the District had cash and cash equivalents totaling \$482,508 with a carrying amount of \$520,467 at December 31, 2010.

The District also invests all excess funds in certificates of deposits. Certificates of Deposits with maturity dates greater than 90 days are classified as investments, while Certificates of Deposits with maturity dates less than 90 days are classified as cash and cash equivalents for financial reporting.

Cash and cash equivalents and investments are stated at cost, which approximates market. These deposits must be secured under state law by federal deposit insurance or the pledge of securities owned by the bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the bank. The following is a summary of cash and cash equivalents and investments at December 31, 2010:

**LIVINGSTON PARISH GRAVITY DRAINAGE
DISTRICT #2**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010

	<u>Deposits in Bank Accounts</u>		
	<u>Cash</u>	<u>Certificates of Deposit</u>	<u>Total</u>
Deposits in Bank Accounts per Balance Sheet	\$ 520,467	\$ 42,265	\$ 562,732
Bank Balances (Category 3 Only):			
a. Uninsured and Uncollateralized	\$ -	\$ -	\$ -
b. Uninsured and Collateralized with Securities Held by the Pledging Institution	-	-	-
c. Uninsured and Collateralized with Securities Held by the Pledging Institution's Trust Department or Agent, but not in the Entity's Name	<u>232,508</u>	<u>-</u>	<u>232,508</u>
Total Category 3 Bank Balances	<u>\$ 232,508</u>	<u>\$ -</u>	<u>\$ 232,508</u>
Total Bank Balances (Regardless of Category)	<u>\$ 482,508</u>	<u>\$ 42,608</u>	<u>\$ 525,116</u>

Custodial Credit Risk - Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of December 31, 2010, \$232,508 of the District's bank balance of \$525,116 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging institution's trust department or agent, but not in the entities' name.

(3) Changes in Capital Assets -

Capital asset activity for the year ended December 31, 2010 is as follows:

<u>Governmental Activities</u>	<u>Balance December 31, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2010</u>
Building and Improvements	\$ 67,039	\$ 137,779	\$ -	\$ 204,818
Equipment	456,968	20,564	-	477,532
Vehicles	142,299	-	-	142,299
Land	<u>22,112</u>	<u>55,000</u>	<u>-</u>	<u>77,112</u>
Totals	688,418	213,343	-	901,761

(CONTINUED)

**LIVINGSTON PARISH GRAVITY DRAINAGE
DISTRICT #2**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010

<u>Governmental Activities</u>	<u>Balance December 31, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2010</u>
Less Accumulated				
Depreciation for:				
Buildings and Improvements	(13,759)	(3,739)	-	(17,498)
Equipment	(259,113)	(64,486)	-	(323,599)
Vehicles	<u>(101,089)</u>	<u>(15,771)</u>	<u>-</u>	<u>(116,860)</u>
Total Accumulated				
Depreciation	<u>(373,961)</u>	<u>(83,996)</u>	<u>-</u>	<u>(457,957)</u>
Capital Assets, Net	<u>\$ 314,457</u>	<u>\$ 129,347</u>	<u>\$ -</u>	<u>\$ 443,804</u>

Depreciation expense for the year ended December 31, 2010 is \$83,996, as reported in the Statement of Activities.

(4) Long-Term Debt -

The Livingston Parish Gravity Drainage District #2 has no long-term debt transactions for the year ended December 31, 2010.

(5) Leases -

The District has no outstanding capital or operating leases at December 31, 2010.

(6) Litigation -

At December 31, 2010, there is no litigation pending against the District.

(7) Compensated Absences, Pension Plan, and Other Postemployment Benefits -

At December 31, 2010, the employees of the District have accumulated and vested \$6,528 of employee leave benefits, which was computed in accordance with GASB Codification Section C60. The District has no plan or provision for other post employment benefits.

On January 1, 2007, the District adopted a Simplified Employee Pension Plan (SEP) for its employees. Under this defined contribution plan, the District's Board of Commissioners establishes individual retirement accounts for each eligible employee to whom the District will make a contribution as determined on a year to year basis. Because contributions are made to individual retirement accounts, all contributions received by an employee are 100% vested. The employee may select between several investment options. The District does not guarantee the results of these investments. The District's Board of Commissioners voted to match up to 5.0% of eligible wages for 2010 which amounts to \$8,510.

**LIVINGSTON PARISH GRAVITY DRAINAGE
DISTRICT #2**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010

(8) Per Diem Paid Board Members -

As of January 1, 2007, all of the Board of Commissioners receive a monthly per diem of \$100 per month for attending each regular or special meeting of the board. All Board Members serve five year terms. Per diems paid to the board members for 2010 were as follows:

	<u>Number of Meetings</u>	<u>Amount Received</u>
Charles Kemp	18	\$1,800
Beverly Thames	18	1,800
Fred Baker	15	1,500
Murray Morgan	18	1,800
Jimmy Davis	18	<u>1,800</u>
		<u>\$8,700</u>

(9) Contingency -

On September 25, 2008, the District entered into a Cooperative Endeavor Agreement (CEA) with the Livingston Parish Council (LPC) in accordance with Article VII Section 14 and Article VI Section 20 of the Louisiana Constitution. The purpose of the CEA was for the District to use the services of the contractor hired by the LPC for debris cleanup caused by Hurricane Gustav and to foster greater economy and efficiency than the District hiring its own debris cleanup contractor. According to the CEA, the LPC's debris contractor would remove all debris located within the confines of the District in accordance with the "Debris Removal Agreement" between the LPC and the contractor, and only the debris or areas that the District authorized the contractor to cleanup. According to the terms of the CEA, the District agreed to pay all cost related to the debris removal within the boundaries of its District including any cost declared ineligible for reimbursement by the Federal Emergency Management Agency (FEMA).

The contractor performed debris cleanup services from September 25, 2008 through approximately May 13, 2009, which is the date the LPC's President stopped all debris removal services being performed by the contractor. The total cost of the debris removal services performed by all contractors is the subject of a dispute between the LPC, the debris contractors and FEMA. As of date of the report, the District has not received detailed invoices to be able to determine the total liability that the District may owe under the terms of the CEA. Due to management not having the necessary invoice documentation to review and approve the debris removal costs associated with services performed within the boundaries of the District along with unresolved matters under dispute between the debris contractors, LPC and FEMA, management is not able to reasonably estimate a liability or estimate the receivable due from FEMA, if any, to record in these financial statements. Although no cost or invoice documentation has been provided to the District, management believes the liability owed and federal reimbursement receivable will likely be material to these financial statements.

INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT
OF THE COMPONENT UNIT FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

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May 17, 2011

Board of Commissioners
Livingston Parish Gravity Drainage
District #2
Livingston Parish Council
Watson, Louisiana

We have audited the financial statements of the governmental activities and the major fund (the General Fund) of the Livingston Parish Gravity Drainage District #2, (the District) a component unit of the Livingston Parish Council, as of and for the year ended December 31, 2010, and have issued our report thereon dated May 17, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, others within the entity, federal awarding agencies, pass-through entities and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document

Respectfully submitted,

Hannus J. Bourgeois, LLP

**LIVINGSTON PARISH GRAVITY DRAINAGE
DISTRICT #2**

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED DECEMBER 31, 2010

Current Year Findings:

None

**LIVINGSTON PARISH GRAVITY DRAINAGE
DISTRICT #2**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED DECEMBER 31, 2010

Prior Year Findings:

None